STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE REGULATION
DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH
STANLEY "SKIP" PRUSS, DIRECTOR

JENNIFER M. GRANHOLM
GOVERNOR

KEN ROSS
COMMISSIONER

# BILL ANALYSIS

**BILL NUMBER:** House Bill 6097

**TOPIC:** Increases certain maximum benefits allowed under the Michigan Life and Health Insurance Guaranty Association for Annuity Contracts

**SPONSOR:** Representative Joe Haveman

**CO-SPONSORS:** Representatives Coleman Young, Cindy Denby, Arlan Meekhof, Andy Neumann, Pete Lund, John Walsh, Tim Moore, Joel Sheltrown, Jimmy Womack, LaMar Lemmons, Kevin Green, Bob Constan

**COMMITTEE:** Insurance

**Analysis Done:** May 12, 2010

## POSITION

The Office of Financial and Insurance Regulation (OFIR) supports this legislation.

## PROBLEM/BACKGROUND

Chapter 77 of the Michigan Insurance Code, 1956 PA 218, MCL 500.100 et seq., is the Michigan Life and Health Insurance Guaranty Association Act. It addresses how persons are protected against failure in the performance of contractual obligations under insurance policies and annuity contracts because of the impairment or insolvency of the insurer issuing the policies or contracts. The National Association of Insurance Commissioners (NAIC) has amended its Life and Health Insurance Guaranty Association Model Act by increasing the threshold harmed policyholders may receive under Chapter 77 and Michigan needs to update its statute for compliance.

The NAIC assists state insurance regulators in regulating the conduct of insurance companies and agents in their respective state or territory. The NAIC accreditation team conducts reviews of each state-regulator member every five years. The reviews are conducted to determine if a state's laws meet the standards agreed to by all other state-regulator members. If the state's laws and regulations meet the NAIC accreditation standards, that state's domestic insurance companies are only required to file their financial statements with their home state and not in each state in which they do business. That state can be assured that a company domiciled in another accredited state meets all of that state's standards, as well. The accreditation process saves the states and the insurance companies both time and money.

If Michigan were to lose its accreditation from the NAIC, then Michigan-domiciled insurers would have to file financial statements with all the states in which they do business and would be subject to examination on a regular basis by those states.

This legislation adopts language similar to the Life and Health Insurance Guaranty Association Model Act standards required by the NAIC accreditation process.

## DESCRIPTION OF BILL

This legislation increases the amount of the present value of an annuity benefit from $100,000 to $250,000, increases the amount of the unallocated annuity benefit for an individual participating in a governmental retirement benefit plan from $100,000 to $250,000 and increases the amount of a structured settlement annuity benefit from $100,000 to $250,000.

The legislation also makes minor changes to clarify existing language relating to the use of "contract" versus "coverage", preemptions by federal or state law and to update the reference to Title XVIII of the Social Security Act.

## SUMMARY OF ARGUMENTS

### Pro

This legislation adopts language similar to the Life and Health Insurance Guaranty Association Model Act standards required by the NAIC accreditation process to assure that other states accept Michigan's examination results.

This language increases the limits relating to annuity benefits designed to protect policy owners, insured, beneficiaries, etc., both in terms of paying claims and continuing coverage against losses, which might otherwise occur due to an impairment or insolvency of an insurer. Unlike the property and casualty lines of business, life and annuity contracts in particular are long-term arrangements for security. An insured may have impaired health or be at an advanced age so as to be unable to obtain new and similar coverage from other insurers. The payment of cash values alone does not adequately meet such needs. Thus, it is essential that coverage be continued.

### Con

None known.

## FISCAL/ECONOMIC IMPACT

OFIR has identified the following revenue or budgetary implications in this bill:

(a) To the Office of Financial and Insurance Regulation: While there are no direct budget or revenue implications for OFIR, if the change is not implemented, Michigan could lose its accreditation.

Budgetary:

Revenue:

Comments:

(b) To the Department of Energy, Labor & Economic Growth: None

Budgetary:

Revenue:

Comments:

(c) To the State of Michigan: None

Budgetary:

Revenue:

Comments:

(d) To Local Governments within this State: None

Comments:

## OTHER STATE DEPARTMENTS

None known.

## ANY OTHER PERTINENT INFORMATION

In 2006, legislation was introduced (HB 6313) and signed into law (PA 671 of 2006) allowing the provisions and/or limits for benefits that the Association may be obligated to cover if an insurer becomes impaired or insolvent. The limits were established in 2006 and have not been updated since that time.

## ADMINISTRATIVE RULES IMPACT

OFIR has general rulemaking authority under the Insurance Code of 1956, 1956 PA 218, MCL 500.100 et seq.

Ken Ross
Commissioner

5-12-10
Date